DOCUMENT RESUME

ED 171 628 SO 011 728

TITLE Consumer Handbook to Credit Protection Laws.
INSTITUTION Board of Governors of the Federal Reserve System, Washington, D.C.
PUB DATE Dec 78
NOTE 26p.

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Consumer Economics; Consumer Education; *Consumer Protection; *Credit (Finance); *Equal Protection; *Federal Legislation; Females; *Financial Problems; Home Economics Education; *Instructional Materials; Marital Status; Minority Groups; Money Management; Postsecondary Education; Purchasing; Racial Discrimination; Responsibility; Secondary Education; Sex Discrimination

ABSTRACT

The five sections of this consumer handbook are The Cost of Credit, Applying for Credit, Credit Histories and Records, Correcting Credit Mistakes, and Complaining about Credit. Each section discusses relevant legislation: Truth in Lending, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act. Topics discussed in section I include methods for comparing finance costs, and explanations of open end credit, open end leases, balloon payments, advertising costs, and costs of settlement on a house. Section II discusses discrimination pertaining to sex, age, and marital status. Borrower characteristics and circumstances under which an agency may not legally deny credit are listed. Section III covers establishing credit histories for married, divorced, or widowed women, and methods for maintaining credit histories. Section four explains action to take concerning defective goods and services, prompt credits and refunds, second mortgage cancellation, lost or stolen credit cards, unsolicited credit cards, and discounts for cash payments. Section five discusses procedures for complaining to federal agencies. A glossary and addresses of federal enforcement agencies and federal reserve banks are included. (KC)

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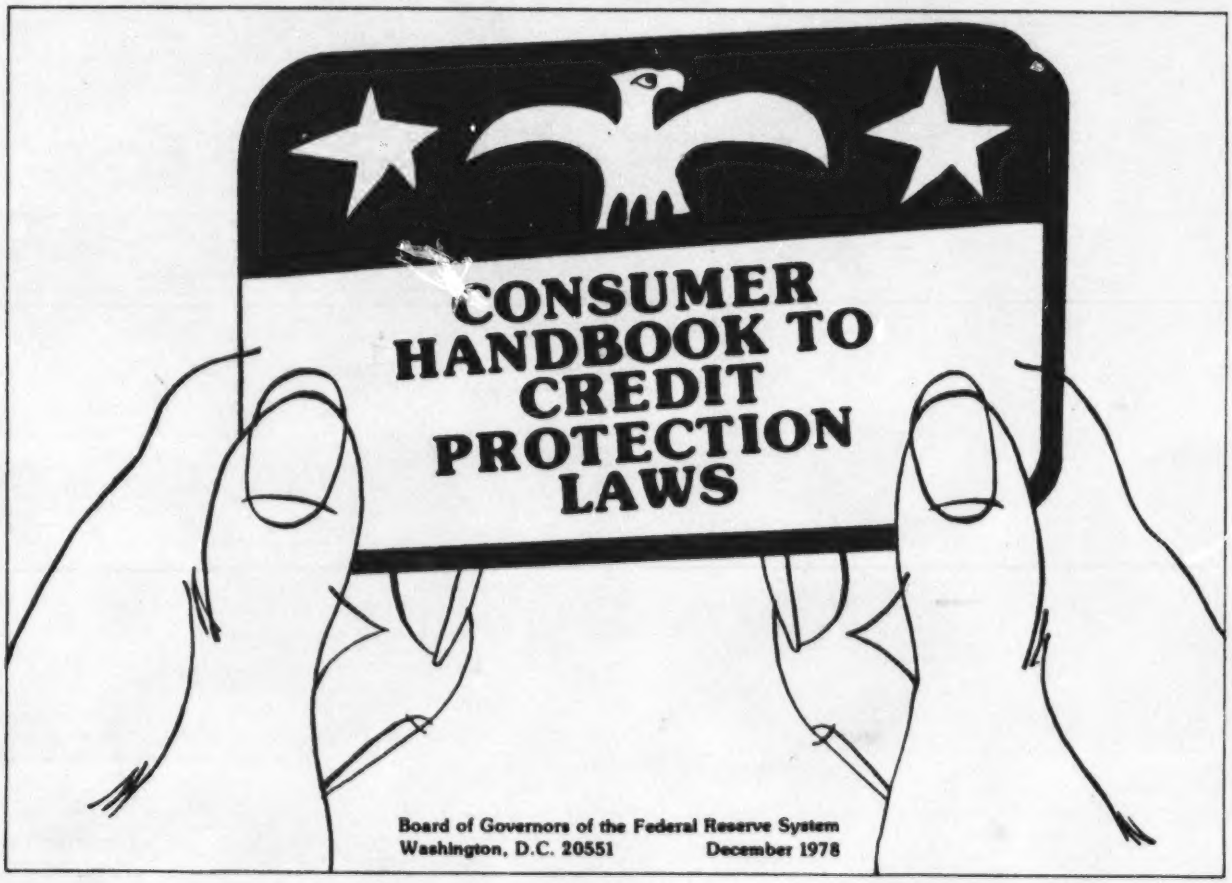
CONSUMER HANDBOOK TO CREDIT PROTECTION LAWS
Board of Governors of the Federal Reserve System
Washington, D.C. 20551
December 1978

SP 011 728

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INTRODUCTION

The Consumer Credit Protection Act of 1968 — which launched Truth in Lending — was a landmark piece of legislation. For the first time, creditors were required to state the costs of borrowing in a common language so that you — the customer — could figure out exactly what charges would be, compare costs, and shop for credit.

Since 1968, credit protections have multiplied rapidly. The concepts of "fair" and "equal" credit have been written into laws that outlaw discrimination in credit transactions; require that consumers be told the reason when credit is denied; give borrowers access to their credit records; and set up a method to settle billing disputes.

Each of these laws was intended to remove some of the problems and confusion from consumer credit which, as it became more widely used in our economy, also grew more complex. Together, these laws set a standard for how individuals are to be treated in their daily credit dealings.

The laws say, for instance:

- that you can no longer be refused a credit card just because you're a single woman;
- that you can limit your risk if a credit card is lost or stolen;
- that you can straighten out errors in your monthly bill without damage to your credit rating;
- and that you won't find credit shut off just because you've reached the age of 65.

But, let the buyer **be aware!** It is important to know your rights and how to use them. This handbook explains how the consumer credit laws can help you shop for credit, apply for it, keep up your credit standing, and — if need be — complain about an unfair deal. It explains what you should look for when using credit and what creditors look for before extending it. It also points out the laws' solutions to discriminatory practices that have made it difficult for women and minorities to get credit in the past.

Board of Governors of the
Federal Reserve System
December 1978

THE COST OF CREDIT

Shopping is the First Step

You get credit by promising to pay in the future for something you receive in the present.

Credit is a convenience. It lets you charge a meal on your credit card, pay for an appliance on the instalment plan, take out a loan to buy a house, or pay for schooling or vacations. With credit, you can enjoy your purchase while you're paying for it—or you can make a purchase when you're lacking ready cash.

But there are strings attached to credit too. It usually costs something. And of course what is borrowed must be paid back.

If you are thinking of borrowing or opening a credit account, your first step should be to figure out how much it will cost you and whether you can afford it. Then you should shop around for the best terms.

What Laws Apply?

These laws can help you compare costs:

TRUTH IN LENDING requires creditors to give you certain basic information about the cost of buying on credit. These "disclosures" can help you shop around for the best deal.

TRUTH IN LEASING disclosures can help you compare the cost and terms of one lease with another and with the cost and terms of buying for cash or on credit.

The Finance Charge and Annual Percentage Rate (APR)

Credit costs vary. By remembering two terms, you can compare credit prices from different sources. Under Truth in Lending, the creditor must tell you — in writing and before you sign any agreement — the finance charge and the annual percentage rate.

The **finance charge** is the total dollar amount you pay to use credit. It includes interest costs, and sometimes other costs, such as service charges, some credit-related insurance premiums or appraisal fees.

For example, borrowing $100 for a year might cost you $7 in interest. If there were also a service charge of $1, the finance charge would be $8.

The **annual percentage rate** (APR) is the percentage cost (or relative cost) of credit on a yearly basis. This is your key to comparing costs, regardless of the amount of credit or how long you have to repay it:

Again, suppose you borrow $100 for one year and pay a finance charge of $8.

If you can keep the entire $100 for the whole year and then pay it all back at once, you are paying an APR of 8 per cent.

But, if you repay the $100 and finance charge (a total of $108) in twelve equal monthly instalments of $9 each, you don't really get to use $100 for the whole year. In fact, you get to use less and less of that $100 each

month. In this case the $8 charge for credit amounts to an APR of 14.5 per cent.

All creditors — banks, stores, car dealers, credit-card companies, finance companies — must state the cost of their credit in terms of the finance charge and the APR. The law says these two pieces of information must be shown to you before you sign a credit contract. Federal law does not set interest rates or other credit charges. But it does require their disclosure so that you can compare credit costs.

A Comparison

Even when you understand the terms a creditor is offering, it's easy to underestimate the difference in dollars that different terms can make. Suppose you're buying a $5,000 car. You put $1,000 down, and need to borrow $4,000. Compare these three credit arrangements:

	APR	Length of Loan	Monthly payment	Total Finance Charge	Total Cost
CREDITOR A	11%	3 years	$131	$ 716	**$4,716**
CREDITOR B	11%	4 years	**$103**	$ 962	$4,962
CREDITOR C	**12%**	4 years	$105	$1,056	$5,056

How do these choices stack up? The answer depends partly on what you need.

The **lowest cost loan** is available from Creditor A.

But if you were looking for **lower monthly payments,** you could get them by paying the loan off over a longer period of time. However, you would have to pay more in total costs. A loan from Creditor B — also at an 11 per cent APR, but for four years — will add almost $250 to your finance charge.

If that four-year loan were available only from Creditor C, the **APR of 12 per cent** would add another $94 to your finance charges as compared with Creditor B.

Other terms — such as the size of the down payment — will also make a difference. Be sure to look at all the terms before you make your choice.

Cost of Open-end Credit

Open-end credit includes credit cards, department store "charge plates," and check-overdraft accounts that allow you to write checks for more than your actual balance with the bank. Open-end credit can be used again and again, generally until you reach a certain pre-arranged borrowing limit. Truth in Lending requires that open-end creditors let you know these two terms that will affect your costs:

First, **creditors must tell you the method of calculating the finance charge.** Creditors use a number of different systems to calculate the balance on which they assess finance charges. Some creditors add finance charges after subtracting payments made during the billing period. This is called the **adjusted balance method.** Other creditors give you no credit for payments made during the billing period. This is called the **previous balance method.** Under a third method — the **average daily balance method** — creditors add your

balances for each day in the billing period and then divide by the number of days in the billing period.

Here's a sample of three billing systems:

	ADJUSTED BALANCE	PREVIOUS BALANCE	AVERAGE DAILY BALANCE
Monthly Interest Rate	1½%	1½%	1½%
Previous Balance	$400	$400	$400
Payments	$300	$300	$300 (payment on 15th day)
Interest Charge	**$1.50** ($100 x 1.5%)	**$6.00** ($400 x 1.5%)	**$3.75** (average balance of $250 x 1.5%)

As the example shows, the finance charge varies considerably for the same pattern of purchases and payments.

Second, **creditors must tell you when** finance charges begin on your credit account, so you know how much time you have to pay your bills before a

finance charge is added. Some creditors, for example, give you a 30 day "free ride" to pay your balance in full before imposing a finance charge.

Truth in Lending does not set the rates or tell the creditor how to make interest calculations — it only requires that the creditor tell you the method that will be used. You have the right to ask for an explanation of any terms you don't understand.

Leasing Costs and Terms

Leasing gives you temporary use of property in return for periodic payments. It has become a popular alternative to buying — under certain circumstances. For instance, you might consider leasing furniture for an apartment you'll use only for a year. The Truth in Leasing law requires leasing companies to give you the facts about the costs and terms of their contracts, to help you decide whether leasing is a good idea.

The law applies to **personal property** leased to you for more than **four months** for **personal, family,** or **household** use. It covers, for example, long term rentals of cars, furniture, and appliances, but **not** daily car rentals or leases for apartments.

Before you agree to a lease, the leasing company must give you a written statement of **costs,** including the amount of any security deposit, the amount of your monthly payments, and the amount you must pay for license, registration, taxes, and maintenance.

The company must also give you a written statement about **terms,** including any insurance you need, any guarantees, information about who is responsible for

servicing the property, standards for its wear and tear, and whether or not you have an option to buy the property.

Open-end Leases and Balloon Payments

Your costs will depend on whether you choose an "open end" lease or a "closed end" lease. Open end leases usually offer lower monthly payments than closed end leases, but you may owe a large extra payment — called a "balloon payment" — based on the value of the property when you return it.

> Suppose you lease a car under a 3-year open end lease. The leasing company estimates the car will be worth $2,000 after 3 years of normal use. If you bring back the car in a condition that makes it worth only $1500, you may owe a balloon payment of $500.

The leasing company must tell you whether you may owe a balloon payment and how it will be calculated. You should also know that:

- you have the right to an independent appraisal of the property's worth at the end of the lease. **You** must pay the appraiser's fee, however.
- the law usually limits a balloon payment to **no more than three times the average monthly payment.** If your monthly payment is $100, your balloon payment can't be more than $300 — unless, for example, the property has received more than average wear and tear (for instance, if you drove a car more than average mileage).

Closed end leases usually have a higher monthly payment than open end leases, but there is no balloon payment at the end of the lease.

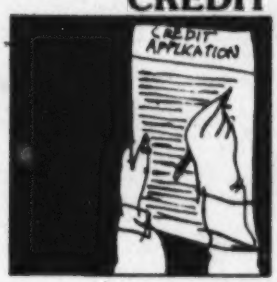
Advertising

Both Truth in Lending and Truth in Leasing require accurate advertising of terms. These laws say that if a business mentions one important feature of a credit sale or lease — such as the downpayment — it must also state the APR and other important terms — such as the number, amount, and schedule of repayments. An ad reading "Only $2 down," for example, must also state that you will have to pay $10 a week for the next two years. An ad must also specify if a leasing arrangement is involved.

Costs of Settlement on a House

A house is probably the single largest credit purchase for most consumers — and one of the most complicated. The Real Estate Settlement Procedures Act, like Truth in Lending, is a disclosure law. The Act, administered by the Department of Housing and Urban Development, requires the lender to give you, in advance, certain information about the costs you will pay when you actually get the deed to the property. This event is called settlement, and the law helps you shop for lower settlement costs. To find out more about it, you may write to: Assistant Secretary for Consumer Affairs and Regulatory Functions, Attention: RESPA Office, US/HUD, 451-7th Street, S.W., Room 4100, Washington, D.C. 20410.

APPLYING FOR CREDIT



The Old Story of Discrimination

Here's the old story: Mary and John Jones, whose joint income is more than enough to make payments on their dream house, are turned down for a mortgage loan. The lender says Mary might become pregnant and leave her job.

That's illegal now. It's illegal even to discourage the Joneses from applying for a loan just because Mary is of child-bearing age. And Mary's income must be counted fully by a lender.

When you're ready to apply for credit, you should know what creditors think is important in deciding whether you're creditworthy. You should also know what they cannot legally consider in their decisions.

What Law Applies?

The law makes sure the creditor will be fair:

THE EQUAL CREDIT OPPORTUNITY ACT starts all credit applicants off on the same footing. It says that race, color, age, sex, marital status — and certain other factors — may not be used to discriminate against you in any part of a credit dealing.

What Creditors Look For

The Three C's. Creditors look for an ability to repay debt and a willingness to do so — and sometimes for a little extra security to protect their loans. They speak of the three C's of credit — capacity, character, and collateral.

Capacity Can you repay the debt? Creditors ask for employment information: your occupation, how long you've worked, how much you earn. They also want to know your expenses: how many dependents you have, or whether you pay alimony or child support.

Character Will you repay the debt? Creditors will look at your credit history (see chapter on Credit Histories and Records): how much you owe, how often you borrow, whether you pay bills on time, and whether you live within your means. They also look for signs of stability: how long you've lived at your present address, whether you own or rent, and whether you are insured.

Collateral Is the creditor fully protected if you fail to repay? Creditors want to know what you may have that

could be used to secure your loan, and what sources you have for repaying debt other than income, such as savings, investments, or property.

Creditors use different combinations of these facts in reaching their decisions. Some set unusually high standards and others simply do not make certain kinds of loans. Creditors also use different kinds of rating systems. Some rely strictly on their own instinct and experience. Others use a "credit scoring" or statistical system to predict whether you're a good credit risk. They assign a certain number of points to each of various characteristics that have proved to be reliable signs that a borrower will repay. Then, they rate you on this scale.

And so, different creditors may reach different conclusions based on the same set of facts. One may find you an acceptable risk, while another may deny you a loan.

Information the Creditor Can't Use

The Equal Credit Opportunity Act does not guarantee that you will get credit. You must still pass the creditor's tests of creditworthiness. But the creditor must apply these tests fairly, impartially, and without discrimination against you on any of the following grounds: age, sex, marital status, race, color, religion, national origin, because you are on welfare or Social Security, or because you exercise your rights under Federal credit laws. This means that a creditor may not use any of those grounds as an excuse to:

– discourage you from applying for a loan;
– refuse you a loan if you qualify;
– lend you money on terms different from those granted another person with similar income, expenses, credit history, and collateral.

Special Rules

Age. Many older persons have complained about being denied credit just because they were over a certain age. Or when they retired, they may have found that their credit was suddenly cut off or reduced. So the law is very specific about how a person's age may be used in credit decisions.

A creditor may ask your age, but if you're old enough to sign a binding contract (usually 18 or 21 years old depending on State law), a creditor **may not:**

– turn you down or decrease your credit just because of your age;
– ignore your retirement income in rating your application;
– close your credit account or require you to reapply for it just because you reach a certain age or retire;
– deny you credit or close your account because credit life insurance or other credit-related insurance is not available to persons your age.

Creditors may "score" your age in a credit-scoring system, but:

– if you are 62 or older you must be given at least as many points for age as any person under 62.

Because age does have economic consequences, the law permits a creditor to consider certain information related to age – such as how long until you retire or how long your income will continue. An older applicant might not qualify for a large loan with a 5 per cent down payment on a risky venture, but might qualify for a smaller loan – with a bigger down payment – secured by good collateral. Remember that while a declining income may be a handicap if you are older, you can usually offer a solid credit history to your advantage. The creditor has to look at all the facts and apply the usual standards of creditworthiness to your particular situation.

Public Assistance. You may not be denied credit just because you receive Social Security or public assistance (such as Aid to Families with Dependent Children). But – as is the case with age – certain information related to this source of income could have a clear bearing on creditworthiness. So, a creditor may consider such things as:

– how old your dependents are (because you may lose benefits when they reach a certain age);
– whether you will continue to meet the residency requirements for receiving benefits.

These factors help the creditor determine the likelihood that your public assistance income will continue.

Housing Loans. The Equal Credit Opportunity Act covers your application for a mortgage or home improvement loan. It bans discrimination because of such characteristics as your race, color, sex, or because of the race or national origin of the people in the neighborhood where you live or want to buy your home. Nor may creditors use any appraisal of the value of your property that considers the race of the people in your neighborhood.

Another Federal law, the **Home Mortgage Disclosure Act,** requires that most lending institutions in metropolitan areas tell the public annually where they have made their mortgage and home improvement loans. This information does not tell you where loans were denied or why — it can't be used to prove discrimination — but it can help customers, community groups, and local officials working with lenders to meet neighborhood needs for housing credit. You can ask to see the information at any time at your bank, savings and loan, or credit union. Those interested in local cooperative efforts to increase mortgage lending and improve housing in urban areas, may write to the Urban Reinvestment Task Force, 1120 19th Street, N.W., Washington, D.C. 20036.

Discrimination Against Women

Both men and women are protected from discrimination based on sex or marital status. But many of the law's provisions were designed to stop particular abuses that generally made it difficult for women to get credit. For example, the notion that single women ignore their debts when they marry, or that a woman's income "doesn't count" because she'll leave work to have children, now is unlawful in credit transactions.

The general rule is that **you may not be denied credit just because you are a woman, or just because you are married, single, widowed, divorced, or separated.** Here are some important protections:

Sex and Marital Status

Generally, creditors may not ask your sex on an application form (one exception is on a loan to buy or build a home).

You do not have to use Miss, Mrs., or Ms. with your name on a credit application. But, in some cases, a creditor may ask whether you are married, unmarried, or separated (unmarried includes single, divorced, and widowed).

Child-bearing Plans	Creditors may not ask about your birth control practices or whether you plan to have children, and they may not assume anything about those plans.
Income and Alimony	The creditor must count all of your income, even income from part-time employment. Child support and alimony payments are a primary source of income for many women. You don't have to disclose these kinds of income, but if you do creditors must count them.
Telephones	Creditors may not consider whether you have a telephone listing in your name because this would discriminate against most married women. (You may be asked if there's a telephone in your home.)

A creditor **may** consider whether income is steady and reliable, so be prepared to show that you can count on uninterrupted alimony payments or part-time wages. If you're pregnant when you apply for a loan, bring some proof that you'll be paid during maternity leave or that your job will be open for you when you return. (Before you go to apply, ask the creditor what proof is acceptable.)

Your own accounts. Many married women used to be turned down when they asked for credit in their own name. Or, a husband had to co-sign an account — agree to pay if the wife didn't — even when a woman's own income could easily repay the loan. Single women were refused loans because they were judged somehow less "reliable" than other applicants. You now have a right to your own credit, based on your own credit records and earnings. Your own credit means a separate account or loan in your own name — not a joint account with your husband or a duplicate card on his account. Here are the rules:

- Creditors may not refuse to open an account just because of your sex or marital status.
- You can choose to use your first name and maiden name (Mary Smith); your first name and husband's last name (Mary Jones); or a combined last name (Mary Smith-Jones).
- If you're creditworthy, a creditor may not require your husband to co-sign your account, with exceptions in "community property States," where husbands and wives are equally responsible for each other's debts.
- Creditors may not ask for information about your husband or ex-husband when you apply for your own credit based on your own income — unless that income is alimony, child support, or separate maintenance payments from your spouse.

This last rule, or course, does not apply if your husband is going to use your account or is responsible for paying your debts, or you live in a community property State. (Community property States are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington.)

Change in Marital Status. Married women have sometimes faced severe hardships when cut off from credit after their husbands died. Single women have had accounts closed when they married, and married women have had accounts closed after a divorce. The law says that creditors may not require you to reapply for credit just because you marry or become widowed or divorced. Nor may they close your account or change the terms of your account on these grounds. There must be some sign that your creditworthiness has changed. For example, creditors **may** ask you to reapply if you relied on your ex-husband's income to get credit in the first place.

Setting up your own account protects you by giving you your own history of debt management to rely on if circumstances do change because of widowhood or divorce. If you're getting married and plan to take your husband's surname, write to your creditors and tell them if you want to keep a separate account.

If You're Turned Down

Remember, your sex or race may not be used to discourage you from applying for a loan. And creditors may not delay your application on those grounds. Under the Equal Credit Opportunity Act, you must be notified within 30 days after your application has been completed whether your loan has been approved or not. If credit is denied, this notice must be in writing and it must explain the specific reasons for denying credit or tell you of your right to request an explanation. You have the same rights if an account you have had is closed.

If you are denied credit, be sure to find out why. Remember, you may have to ask the creditor for this explanation. It may be that the creditor thinks you have requested more money than you can repay on your income. It may be that you have not been employed or lived in the community long enough. You can discuss terms with the creditor and ways to improve your creditworthiness. The next chapter explains how to improve your ability to get credit.

If you think you have been discriminated against, cite the law to the lender. If the lender still says no without a satisfactory explanation, you may contact a Federal enforcement agency for assistance or bring legal action as described in the last chapter of this handbook.

CREDIT HISTORIES AND RECORDS

Building Up a Good Record

On your first attempt to get credit, you may face a common frustration: sometimes it seems you have to have credit to get credit. Some creditors will rely entirely on your salary and job and the other financial information you supply on your application. But most also want to know about your experience in handling credit — how reliably you've repaid past debts. They turn to the records kept by credit bureaus or credit reporting agencies whose business is to collect and store information about borrowers that is routinely supplied by many lenders. These records include the amount of credit you have received and how faithfully you've paid it back.

Here are several ways you can begin to build up a good credit history:

- Open a checking account or a savings account, or both. These do not begin your credit file, but may be checked as evidence that you have money and know how to manage it. Cancelled checks can be used to show you pay utilities or rent bills regularly, a sign of reliability.
- Apply for a department store credit card. Repaying credit card bills on time is a plus in credit histories.

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- If you're new in town, write for a summary of any credit record kept by a credit bureau in your former town. (Ask the bank or department store in your old home town for the name of the agency it reports to.)
- Ask a friend or relative with a good credit standing to co-sign an application with you for your first account.
- If you're turned down, find out why and try to clear up any misunderstandings.

What Laws Apply?

The following laws can help you start your credit history and keep your record accurate:

- THE EQUAL CREDIT OPPORTUNITY ACT gives women a way to establish their own credit history and identity.
- THE FAIR CREDIT REPORTING ACT sets up a procedure for correcting mistakes on your credit record.

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Credit Histories for Women

Women who are divorced or widowed might not have separate credit histories because all past credit accounts were listed in their husbands' names. But they can benefit from this record. Under the Equal Credit Opportunity Act, creditors must consider the credit history of any account women have held jointly with their husbands. Creditors must also look at the record of any account held only in the husband's name if a woman can show it also reflects her own creditworthiness. If the record is unfavorable — if an ex-husband was a bad credit risk — she can try to show that the record does **not** reflect her own reputation.

Here's an example:

> Mary Jones, when married to John Jones, always paid their credit-card bills on time and from her own checking account. But the card was issued in John's name, and the credit bureau kept all records in John's name. Now Mary is a widow and wants to take out a new card, but she's told she has no credit history. To benefit from the good credit record already on the books in John's name, Mary should point out that she handled all accounts properly when she was married and that bills were paid by checks from her own account.

Married women probably won't have Mary's problem in the future. Under the Equal Credit Opportunity Act, reports to credit bureaus must now be made in the names of both husband and wife if both use an account or are responsible for repaying the debt. Remember that a wife may also open her own account to be sure of starting her own credit history.

Keeping Up Credit Records

Mistakes on your credit record — sometimes mistaken identities — can cloud your credit future. Your credit rating is important, so be sure credit bureau records are complete and accurate.

The Fair Credit Reporting Act says that you may examine information in your credit file and have any errors corrected.

Negative Information. If a lender refuses you credit because of unfavorable information in your credit report, ask for the name and address of the agency that keeps your report. Then, you may either request information from the credit bureau by mail or in person. You will not get an exact copy of the file, but you will at least get a summary of it. The law also says that the credit bureau must help you interpret the data — because it's raw data that takes experience to analyze. If you're challenging a credit refusal made within the past 30 days, the bureau may not charge a fee for giving you information.

Any error of importance that you find must be investigated by the credit bureau with the creditor who supplied the data. The bureau will remove from your credit file any errors the creditor admits are there. If you disagree with the findings, you can file a short statement in your record giving your side of the story. Future reports to creditors must include this statement or a summary of it.

Old Information. Sometimes credit information is too old to give a good picture of your financial reputation. There is now a limit on how long certain kinds of information may be kept in your file:

- Bankruptcies must usually be removed from your credit history after 14 years.
- Suits and judgments, tax liens, arrest records, and most other kinds of unfavorable information must usually be removed after 7 years.

Another important provision of the law is that you may withhold your credit record from anyone who does not have a legitimate business need for it. Stores to which you are applying for credit or prospective employers may examine your record; curious neighbors may not.

Billing Mistakes. In the next chapter, you will find the steps to take if there's an error on your bill. By following these steps, you can protect your credit rating.

CORRECTING CREDIT MISTAKES

The best way to keep up your credit standing is to repay all debts on time. But there may be complications. To protect your credit — to save your time, your money, and your future credit rating — you should learn how to correct the mistakes and misunderstandings that can tangle up your credit accounts.

When there's a snag, first try to deal directly with the creditor. The credit laws can help you settle your complaints without a hassle.

What Laws Apply?

- THE FAIR CREDIT BILLING ACT sets up a procedure for promptly correcting billing mistakes; for refusing to make credit card payments on defective goods; and for promptly crediting your payments.
- TRUTH IN LENDING gives you 3 days to change your mind about a second mortgage contract; it also limits your risk on lost or stolen credit cards.

Billing Errors

Month after month John Jones was billed for a lawn mower he never ordered and never got. Finally, he tore up his bill and mailed back the pieces — just to try to explain things to a person instead of a computer.

There's a more effective, easier way to straighten out these errors. The Fair

Credit Billing Act requires creditors to correct errors promptly and without damage to your credit rating.

A Case of Error? The law defines a billing error as any charge:

- for something you didn't buy or for a purchase made by someone not authorized to use your account;
- that is not properly identified on your bill or is for an amount different from the actual purchase price or was entered on a date different from the purchase date;
- for something that you did not accept on delivery or that was not delivered according to agreement.

Billing errors also include:

- errors in arithmetic;
- failure to reflect a payment or other credit to your account;
- failure to mail the statement to your current address, provided you notified the creditor of an address change at least 10 days before the end of the billing period;
- a questionable item, or an item for which you need additional information.

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In Case of Error. If you think your bill is wrong, or want more information about it, follow these steps:

1. Notify the creditor **in writing** within 60 days after the bill was mailed. Be sure to write to the address the creditor lists for billing inquiries and to tell the creditor:

- your name and account number;
- that you believe the bill contains an error and **why** you believe it is wrong;
- the suspected amount of the error or the item you want explained.

2. Pay all parts of the bill that are not in dispute. But, while waiting for an answer, you do not have to pay the amount in question (the "disputed amount") or any minimum payments or finance charges that apply to it.

The creditor must acknowledge your letter within 30 days, unless your bill can be corrected sooner. Within two billing periods — but in no case longer than 90 days — either your account must be corrected or you must be told why the creditor believes the bill is correct.

If the creditor made a mistake, you do not pay any finance charges on the disputed amount. Your account must be corrected, and you must be sent an explanation of any amount you still owe. You then have the time usually given on your type of account to pay any balance.

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If no error is found, the creditor must promptly send you a statement of what you owe, and may include any finance charges that have accumulated and any minimum payments you missed while you were questioning the bill.

3. If you still are not satisfied, you should notify the creditor within the time allowed to pay your bill.

Maintaining Your Credit Rating. A creditor may not threaten your credit rating while you're resolving a billing dispute.

Once you have written about a possible error, a creditor is prohibited from giving out information to other creditors or credit bureaus that would damage your credit reputation. And, until your complaint is answered, the creditor also may not take any action to collect the disputed amount.

After the creditor has explained the bill, you may be reported as delinquent on the amount in dispute, and the creditor may take action to collect if you do not pay in the time allowed. Even so, you can still disagree in writing. Then the creditor must report that you have challenged your bill and give you the name and address of each person who has received information about your account. When the matter is settled, the creditor must report the outcome to each person who has received information. Remember that you may also place your own side of the story in your credit record.

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Defective Goods or Services

Your new sofa arrives with only three legs. You try to return it; no luck. You ask the merchant to repair or replace it; still no luck. The Fair Credit Billing Act provides that you may withhold payment on any damaged or shoddy goods or poor quality services purchased with a credit card, as long as you have made a real attempt to solve the problem with the merchant.

This right is limited if the card was a bank or travel and entertainment card or any card **not** issued by the store where you made your purchase. In such cases, the sale:

- must have been for more than $50; and
- must have taken place in your home State or within 100 miles of your home address.

Prompt Credit for Payments and Refunds for Overpayments

If you can avoid finance charges on your account by paying within a certain amount of time, it is obviously important that you get your bills, and get credit for paying them, promptly. Check your statements to make sure your creditor follows these rules:

Prompt Billing. Look at the date on the postmark. If your account is one on which no finance charge is added before a certain due date,

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then creditors must mail their statements at least 14 days before payment is due.

Prompt Crediting. Look at the payment date entered on the statement. Creditors must credit payments on the day they arrive.

Stores often give you a credit on your bill instead of cash when you return a purchase. If this results in an overpayment on your account, a store must make a refund in cash, at your request.

Cancelling a Second Mortgage

Truth in Lending gives you a chance to change your mind on one important kind of transaction — when you use your home as security for a credit transaction. For example, when you are financing a major repair or remodeling, you have three business days to think about the transaction and to cancel it if you wish. The creditor must give you written notice of your right to cancel, and, if you decide to cancel, you must notify the creditor in writing within the 30 day period. No contractor may start work on your home, and no lender may pay you or the contractor until the three days are up. If you want work started immediately for health or safety reasons, you may give up your right to cancel by providing a written explanation of the circumstances.

This right to cancel (or right of "rescission") was provided to protect you against hasty decisions — or decisions made under pressure — that might endanger your continued homeownership. The law does not apply to a first mortgage to

finance the purchase of your home; for that, you commit yourself as soon as you sign the mortgage contract.

Lost or Stolen Credit Cards

"Who steals my purse. . ." just might be after the credit card in it. But, your greatest cost may be inconvenience, because your liability on lost or stolen credit cards is limited under Truth in Lending.

You do not have to pay for **any** unauthorized charges made **after** you notify the card company of loss or theft of your card. So keep a list of your credit card numbers and notify card issuers immediately if your card is lost of stolen. The most you will have to pay for unauthorized charges is $50 on each card — even if someone runs up several hundred dollars worth of charges before you report a card missing.

To protect you further, card companies may not collect from you for **any** loss unless they can prove four things:

1. that they issued you the card at your request or that you used it at least once before it was lost or stolen;
2. that they provided some means, such as a line for your signature or a photo, for stores that accept the card to identify you as the person authorized to use it;
3. that they notified you of your potential $50 liability;
4. that they provided you with a self-addressed stamped form to notify them of loss or theft.

Unsolicited Cards

It is illegal for card issuers to send you a credit card unless you request it. However, a card issuer may send you, without your request, a new card to replace an expired one.

Discounts for Cash Payments

It is illegal for credit-card companies to prohibit stores from offering discounts to people who pay by cash or check. Stores that do offer cash discounts must make this fact clear to all buyers. They may not add an extra charge (above the regular price) for those customers choosing to use credit cards.

For example, suppose you want to buy an item regularly priced at $50. The store offers a cash discount of 5 per cent. If you pay in cash, your price should be:

$50.00
- 2.50 (5% of $50)
$47.50

If you use a credit card, the price is $50.

COMPLAINING ABOUT CREDIT

Complaining to Federal Enforcement Agencies

Always try to solve your problem directly with a creditor. Only then should you bring more formal complaint procedures. Here's the way to file a complaint with the Federal agencies responsible for administering consumer credit protection laws.

Complaints about Banks. If you have a complaint about a bank in connection with any of the Federal credit laws — or if you think any part of your business with a bank has been handled in an unfair or deceptive way — you may get advice and help from the Federal Reserve.

You should submit your complaint — in writing whenever possible — to the Director of the Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or to the Reserve Bank for your district, as listed on page 45 of this handbook. Be sure to describe the bank practice to which you object and give the name and address of the bank involved.

The Federal Reserve will acknowledge your letter and try to respond in full within 15 days. If that is not possible, our reply will set a reasonable date for furnishing you with complete information.

The Board has supervisory responsibility only for State-chartered banks that are members of the Federal Reserve System. It will refer complaints about other

institutions to the appropriate Federal bank regulatory agency and let you know to whom your complaint has been referred. Or you may use the listing on page 44 of this booklet to write directly to the appropriate agency.

The practice you wish to complain about does not have to be subject to Federal regulation. Furthermore, you don't have to be a customer of the bank to file a complaint.

Complaints about Other Businesses. On page 44 of this booklet, you will also find the names of the regulatory agencies for businesses other than banks. Many of these agencies do not handle individual complaints; however, they will use information about your credit experiences to help enforce the credit laws.

Penalties Under the Laws

You may also take legal action against a creditor. If you decide to bring a lawsuit, here are the penalties a creditor must pay if you win.

Truth in Lending and Consumer Leasing Act. If any creditor fails to disclose information required under Truth in Lending or Truth in Leasing, or gives inaccurate information, or does not comply with the rules about credit cards or the right to cancel, you as an individual may sue for actual damages — any money loss you suffer. In addition, you can sue for twice the finance charge in the case of a credit transaction, or, if a lease is concerned, 25 per cent of total monthly payments. In either case, the least the court may award you is $100, and the most is $1,000. In any successful lawsuit, you are entitled to court costs and attorney's fees.

Class action suits are also permitted. A class action suit is one filed on behalf of a group of people with similar claims.

Equal Credit Opportunity Act. If you think you can prove that a creditor has discriminated against you for any reason prohibited by the Act, you as an individual may sue for actual damages plus punitive damages — that is, damages for the fact that the law has been violated — of up to $10,000 if the violation is proved to have been intentional. In a successful lawsuit, the court will award you court costs and a reasonable amount for attorney's fees. Class action suits are also permitted.

Fair Credit Billing. A creditor who fails to comply with rules applying to the correction of billing errors automatically forfeits the amount owed on the item in question and any finance charges on it, up to a combined total of $50 — even if the bill was correct. You as an individual may also sue for actual damages plus twice the amount of any finance charges, but in any case not less than $100 nor more than $1,000. You are also entitled to court costs and attorney's fees in a successful lawsuit. Class action suits are also permitted.

Fair Credit Reporting. You may sue any credit reporting agency or creditor for violating the rules about who may have access to your credit records and correcting errors in your file. Again, you are entitled to actual damages, plus punitive damages as the court may allow if the violation is proved to have been intentional. In any successful lawsuit, you will also be awarded court costs and attorney's fees. An unauthorized person who secures a credit report — or any employee of a credit reporting agency who supplies a credit report to unauthorized persons — may be fined up to $5,000 or imprisoned for one year, or both.

GLOSSARY

Annual Percentage Rate	The cost of a loan over a full year expressed as a percentage.
Appraisal Fee	The charge for estimating the value of property offered as security.
Asset	Property that can be used to repay debt, such as stocks and bonds or a car.
Balloon Payment	A large extra payment that may be charged at the end of a loan or lease.
Billing Error	Any mistake in your monthly statement as defined by the Fair Credit Billing Act.
Collateral	Property offered to support a loan and subject to seizure if you default.
Co-signer	Another person who signs your loan and assumes equal liability for it.
Credit	The promise to pay in the future in order to buy or borrow in the present; a sum of money due a person or a business.
Credit Bureau	An agency that keeps your credit record.
Credit Card	Any card, plate, or coupon book used from time to time or over and over again up to a certain limit to borrow money or buy services on credit.
Credit History	The record of how you've borrowed and repaid debts.

Creditor	A person or business from whom you borrow or to whom you owe money.
Credit-related Insurance	Health, life, or accident insurance designed to pay the outstanding balance of debt.
Credit Scoring System	A statistical system used to rate credit applicants according to various characteristics relevant to creditworthiness.
Creditworthiness	Past and future ability to repay debts.
Default	Failure to meet the terms of your credit agreement.
Disclosure	Information that must be given to consumers before they sign a credit contract.
Elderly Applicant	As defined in the Equal Credit Opportunity Act, a person 62 or older.
Finance Charge	The total dollar amount paid to get a loan.
Joint Account	A credit account signed by two or more people so that all can use the account and all assume liability to repay.
Judgmental System	A nonstatistical system for evaluating creditworthiness.
Late Payment	A payment made later than agreed upon in a credit contract and on which additional interest may be charged.
Lessee	A person who signs a lease to get temporary use of property.
Lessor	A company that provides temporary use of property usually in return for periodic payment.

Liability on an Account	Legal responsibility to repay debt.
Open End Credit	A line of credit that may be used over and over again up to a certain borrowing limit, also called a charge account or revolving credit.
Open End Lease	A lease which may involve a balloon payment based on the value of the property when it is returned.
Overdraft Checking Account	A line of credit that allows you to write checks for more than your actual balance, with an interest charge on the overdraft.
Points	Some extra per cent of the amount borrowed, included as part of your loan fee. Finance charges paid at the beginning of a first mortgage in addition to monthly interest; each point equals one per cent of the amount financed.
Punitive Damages	Damages awarded by a court above actual damages as punishment for a violation of law.
Rescission	The cancellation of a contract.
Security	Property pledged to the creditor in case of a default on a loan; see collateral.
Security Interest	The creditor's right to take property or a portion of property offered as security.
Service Charge	A component of some finance charges, such as the fee for triggering an overdraft checking account into use.

*The regulations contain legal definitions of many of these terms.

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Federal Enforcement Agencies

National Banks
Comptroller of the Currency
Consumer Affairs Division
Washington, D.C. 20219

State Member Banks
Federal Reserve Bank serving the district in which the State member bank is located.

Nonmember Insured Banks
Federal Deposit Insurance Corporation Regional Director for the region in which the nonmember insured bank is located.

Savings Institutions Insured by the FSLIC and Members of the FHLB System (except for Savings Banks Insured by FDIC)
The Federal Home Loan Bank Board Supervisory Agent in the district in which the institution is located.

Federal Credit Unions
Regional Office of the National Credit Union Administration serving the area in which the Federal Credit Union is located.

Creditors Subject to Civil Aeronautics Board
Director, Bureau of Enforcement
Civil Aeronautics Board
1825 Connecticut Avenue, N.W.
Washington, D.C. 20428

Creditors Subject to Interstate Commerce Commission
Office of Proceedings
Interstate Commerce Commission
Washington, D.C. 20523

Creditors Subject to Packers and Stockyards Act
Nearest Packers and Stockyards Administration area supervisor.

Small Business Investment Companies
U.S. Small Business Administration
1441 L Street, N.W.
Washington, D.C. 20416

Brokers and Dealers
Securities and Exchange Commission
Washington, D.C. 20549

Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks and Production Credit Association
Farm Credit Administration
490 L'Enfant Plaza, S.W.
Washington, D.C. 20578

Mortgage Bankers, Consumer Finance Companies, and All Other Creditors
FTC Regional Office for region in which the creditor operates or
Federal Trade Commission
Equal Credit Opportunity
Washington, D.C. 20580

Any complaints may be referred to the Civil Rights Division of the Department of Justice.
Washington, D.C. 20530

Federal Reserve Banks

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
20th and Constitution Avenue, N.W.
Washington, D.C. 20551
(202) 452-3000

ATLANTA, Georgia
104 Marietta Street, N.W.
ZIP 30303
(404) 586-8500

BOSTON, Massachusetts
600 Atlantic Avenue
ZIP 02106
(617) 973-3000

CHICAGO, Illinois
230 South LaSalle Street
P.O. Box 834
ZIP 60690
(312) 322-5322

CLEVELAND, Ohio
1455 East Sixth Street
P.O. Box 6387
ZIP 44101
(216) 241-2800

DALLAS, Texas
400 South Akard Street
Station K
ZIP 75222
(214) 651-6111

KANSAS CITY, Missouri
925 Grand Avenue
Federal Reserve Station
ZIP 64198
(816) 881-2000

MINNEAPOLIS, Minnesota
250 Marquette Avenue
ZIP 55480
(612) 340-2345

NEW YORK, New York
33 Liberty Street
Federal Reserve P.O. Station
ZIP 10045
(212) 791-5000

PHILADELPHIA, Pennsylvania
100 North Sixth Street
P.O. Box 66
ZIP 19105
(215) 574-6000

RICHMOND, Virginia
701 East Byrd Street
P.O. Box 27622
ZIP 23261
(804) 643-1250

SAN FRANCISCO, California
400 Sansome Street
P.O. Box 7702
ZIP 94120
(415) 544-2000

ST. LOUIS, Missouri
411 Locust Street
P.O. Box 442
ZIP 63166
(314) 444-8444

Other Consumer Pamphlets Available

What Truth In Lending Means to You
If You Borrow To Buy Stock
How To File a Consumer Credit Complaint
The Equal Credit Opportunity Act and . . . Age
The Equal Credit Opportunity Act and . . . Women
The Equal Credit Opportunity Act and . . . Doctors, Lawyers, Small Retailers
The Equal Credit Opportunity Act and . . . Credit Rights in Housing
Fair Credit Billing
Truth in Leasing
A Guide to Federal Reserve Regulations
Annual Percentage Rate Tables
Government in the Sunshine/A Guide to Meetings of the Board of Governors of the Federal Reserve System
If You Use a Credit Card

Copies of this handbook and other consumer pamphlets are available upon request from Publications Services, Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.